

ARC OF DESOTO
(a nonprofit corporation)
Mansfield, Louisiana

FINANCIAL STATEMENTS
June 30, 2009 and 2008

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 2/3/10

ARC OF DESOTO
Mansfield, Louisiana
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Independent Auditor's Report

To the Board of Directors
The Arc of DeSoto
Mansfield, Louisiana

I have audited the accompanying statements of financial position of The Arc of DeSoto, (a nonprofit corporation) as of June 30, 2009 and 2008, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arc of DeSoto as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 19, 2010 on my consideration of Arc of DeSoto's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of my audits.

Deborah D. Dees, CPA

Mansfield, Louisiana
January 10, 2010

ARC OF DESOTO
Mansfield, Louisiana
Statements of Financial Position
June 30, 2009 and 2008

	2009	2008
ASSETS		
Current Assets		
Cash	\$ 69,129	\$ 52,351
Police Jury receivable	42,000	
Accounts Receivable	27,521	31,011
Total current assets	<u>138,650</u>	<u>83,362</u>
Property, Plant & Equipment		
Buildings	282,072	282,072
Land	8,000	8,000
Furniture and fixtures	3,856	3,856
Machinery and equipment	25,529	25,868
Vehicles	154,721	154,721
Sheltered workshop equipment	28,668	32,391
Total property, plant & equipment	<u>502,846</u>	<u>506,908</u>
Less: Accumulated Depreciation	<u>(286,963)</u>	<u>(274,140)</u>
Net property and equipment	<u>215,883</u>	<u>232,768</u>
Other Assets		
Prepaid Professional Fees	416	-
Deposit-Utilities	50	50
Total other assets	<u>466</u>	<u>50</u>
TOTAL ASSETS	<u>\$ 354,999</u>	<u>\$ 316,180</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 3,424	\$ 6,499
Payroll taxes payable	1,426	4,013
Total current liabilities	<u>4,850</u>	<u>10,512</u>
Net Assets		
Unrestricted:		
Board operation fund	10,141	7,696
Fixed assets	215,883	232,768
Designated for programs	124,125	65,204
Total unrestricted net assets	<u>350,149</u>	<u>305,668</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 354,999</u>	<u>\$ 316,180</u>

The accompanying notes are an integral part of part of the financial statements.

ARC OF DESOTO
Mansfield, Louisiana
Statements of Activities
For the years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Unrestricted Net Assets		
Revenues and other support:		
DeSoto Parish Police Jury	\$ 108,000	\$ 40,992
Community Homes - contractual	42,358	198,080
Medicaid Income	194,659	6,828
United Way		8,757
Membership dues	248	499
Interest and dividend income	55,328	51,698
Program service income - sheltered workshop	3,114	1,701
Miscellaneous	<u>407,895</u>	<u>308,553</u>
Total increase in net assets		
Expenses		
Program Services		
Adult habilitation services	323,476	336,346
Sheltered workshop	38,793	36,496
Other programs	1,145	1,141
Total decrease in net assets	<u>363,414</u>	<u>373,983</u>
Net Increase (decrease) in unrestricted net assets	44,481	(65,430)
Unrestricted net assets, beginning of year	<u>305,668</u>	<u>371,098</u>
Unrestricted net assets, end of year	<u>\$ 350,149</u>	<u>\$ 305,668</u>

The accompanying notes are an integral part of the financial statements.

ARC OF DESOTO
Mansfield, Louisiana
Statement of Functional Expenses
For the year ended 2009

	<u>Adult Habilitation Services</u>	<u>Sheltered Workshop</u>	<u>Other Programs</u>
Bank Charges	375		
Client Expense	10	2,469	
Depreciation	16,037	848	
Dues & Subscriptions	288		
Employee Benefits	1,097		
Fuel-Auto	27,530		
Insurance	40,838		
Licenses & Permits	25		
Maintenance- vehicles	9,463		
Office Expenses/Supplies	12,494		
Payroll Tax Expense	13,810		
Professional Fees	10,167		
Repairs/Maintenance	435	1,508	
Salaries and wages	171,440	22,407	
Security	1,669		
Staff Training	360		
Supplies		11,561	
Telephone	5,875		
Travel	1,285		
Utilities	10,278		
Other Expenses			1,145
Total program services expenses	<u>\$ 323,476</u>	<u>\$ 38,793</u>	<u>\$ 1,145</u>

The accompanying notes are an integral part of the financial statements.

ARC OF DESOTO
Mansfield, Louisiana
Statement of Functional Expenses
For the year ended June 30, 2008

	Adult Habilitation Services	Sheltered Workshop	Other Programs
Bank Charges	145		
Client Expense	1,069	2,016	
Depreciation	20,836	848	
Drug Testing	144		
Dues & Subscriptions	97		
Employee Benefits	1,525		
Fuel-Auto	32,574		
insurance	51,827		
Licenses & Permits	137		
Maintenance- vehicles	11,202		
Office Expense/Supplies	7,608		
Payroll Tax Expense	12,982		
Professional Fees	11,747		
Repairs/Maintenance	2,061		
Salaries and wages	164,709	19,197	
Security	1,117		
Staff Training	721		
Supplies		14,435	
Telephone	4,879		
Travel	606		
Utilities	10,360		
Other expense			1,141
Total program services expenses	<u>\$ 336,346</u>	<u>\$ 36,496</u>	<u>\$ 1,141</u>

The accompanying notes are an integral part of the financial statements.

ARC OF DESOTO
Mansfield, Louisiana
Statements of Cash Flows
For the years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Unrestricted Net Assets	\$ 44,481	\$ (65,430)
Adjustments to Reconcile Net Income(Loss) to Net Cash Provided By (Used in) Operating Activities:		
Depreciation	16,885	21,684
Losses (Gains) on Sales of Fixed Assets		
Decrease (Increase) in Operating Assets:		
Accounts Receivable	3,490	(5,613)
Police Jury receivable	(42,000)	
Prepays	(416)	416
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(3,075)	2,570
Payroll Tax Liabilities	(2,587)	330
Total Adjustments	<u>(27,703)</u>	<u>19,387</u>
Net Cash Provided By (Used In) Operating Activities	16,778	(46,043)
 NET INCREASE (DECREASE) IN CASH	 16,778	 (46,043)
 CASH AT BEGINNING OF PERIOD	 <u>52,351</u>	 <u>98,394</u>
 CASH AT END OF PERIOD	 <u>\$ 69,129</u>	 <u>\$ 52,351</u>

The accompanying notes are an integral part of the financial statements.

ARC OF DESOTO
Notes to Financial Statements
June 30, 2009 and 2008

Note A. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

The Arc of DeSoto is a nonprofit corporation under the laws of the State of Louisiana. The Arc of DeSoto (The Arc) was established to provide habilitation services to developmental disabled persons ages 18 years and older within DeSoto Parish, Louisiana. These activities are reported under the Adult habilitation services program. The Arc also provides vocational services reported as the Sheltered workshop program in which the clients can work and earn wages for such things as lawn care, janitorial services, cooking and ironing. The organization is primarily supported through Medicaid payments. Approximately 48% and 53% of the Arc's support for the years ended June 30, 2009 and 2008, respectively, came from this agency. The DeSoto Parish Policy Jury contributed 26% of The Arc's revenue for year ended June 30, 2009.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements for Not-for-Profit Organizations*. Under SFAS No. 117, The Arc is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Arc has not received any revenues or contributions with restrictions that would result in permanently restricted net assets. SFAS No. 117 also requires a not-for-profit organization to provide information about expenses by functional classifications. The Statement of Activities presents the expenses charged directly to program or supporting services based on specific identification.

Cash and/or Cash Equivalents

For the purposes of the statement of cash flows, The Arc of DeSoto considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The carrying value of cash approximates fair-value because of the liquidity of those financial instruments. The Federal Deposit Insurance Corporation as of June 30, 2009 insures the checking accounts at each institution. The Board has a checking account for contributions that is used solely for client expenses that are not allowed under the state's contract.

Property and Equipment

Property and equipment are carried at cost or if donated, at the approximate fair value at the date of donation. The State of Louisiana has a reversionary interest in property purchased with state funds. Its disposition as well as the ownership of any proceeds therefore is subject to state regulations.

The Arc of DeSoto follows the practice of capitalizing, at cost, all expenditures for fixed assets in excess of \$500. Depreciation is computed using the straight-line method over the estimated useful life of each asset generally as follows:

Buildings and improvements	31.5 years
Furniture and equipment	7 years
Vans	5 years

The net fixed asset balance has been recorded as a separate component in unrestricted net assets. Depreciation expense for June 30, 2009 and 2008 is \$16,885 and \$21,684, respectively.

ARC OF DESOTO
Notes to Financial Statements
June 30, 2009 and 2008

Income Taxes

The Arc of DeSoto is a nonprofit corporation and is exempt from state and federal income taxes under Section 501(c) (3) of the Internal Revenue Code. No provision for income taxes has been made in these financial statements. However, income from certain activities not directly related to the tax-exempt purposes of the Association is subject to taxation as unrelated business income. The Arc of DeSoto had no such income for this audit period.

Revenue and Support

The Arc of DeSoto receives its support primarily from Medicaid reimbursements. During the year ended June 30, 2009 the DeSoto Parish Police Jury granted the Arc an unrestricted grant of \$6,000 per month through the end of calendar year 2009. Revenue is reported as unrestricted support due to the restrictions placed on those funds by the funding sources being met in the same reporting period as the revenue is earned. The Arc of DeSoto receives other contractual revenue from local community homes for the services provided to their clients.

Contributions of donated non-cash assets are recorded at their fair value in the period received. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Arc had no temporarily or permanently restricted net assets for year ended June 30, 2008.

Retirement Obligations

The employees of The Arc of DeSoto participate in a 401(k) thrift plan. The Arc will match 50% of the first 6% of salary contributed by the employee, and the employee is fully vested in five years. The Arc of DeSoto's contributions for 2009 and 2008 are \$1,097 and \$1,525, respectively.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Compensated Absences

Compensated absences are not recorded in the financial statements because all employees take the same week of vacation in June and 10-day vacation in December. Leave is accumulated but if not used, is only paid if the employee is terminated; therefore the amount cannot be reasonably estimated.

Note B. Accounts Receivable

The accounts receivable consists of the following for the years ended June 30:

	<u>2009</u>	<u>2008</u>
Community Homes	8,198	10,248
Medicaid Waivers	19,323	15,681
United Way of Northwest LA		5,083
	<u>\$ 27,521</u>	<u>\$ 31,011</u>

ARC OF DESOTO
Notes to Financial Statements
June 30, 2009 and 2008

Note B. Accounts Receivable (continued)

On July 22, 2008, the DeSoto Parish Police Jury signed a cooperative endeavor agreement to give the Arc of DeSoto \$36,000 (\$6,000 over six months) "to help support and provide services for mentally challenged individuals of the Parish." The DeSoto Parish Police Jury also included \$72,000 in its calendar year 2009 budget to again support the DeSoto Arc. The \$72,000 grant pledge has been recorded as revenue in the year ended June 30, 2009. At June 30, 2009 the Police Jury receivable for that grant is \$42,000.

Note C. Contingency/ Subsequent Events and Management Plans

In fiscal year ending June 30, 2007, The Arc of DeSoto changed from a fixed state contract to direct Medicaid reimbursements based on client attendance. This has resulted in a yearly decrease of up to 20% in the Arc's client revenue since 2006. This together with the fact that during these three years minimum wage increased twice and fuel and insurance prices were higher than normal resulted in a combined total loss of \$125,304 for fiscal years 2008 and 2007. The Arc has a \$44,481 increase in net assets for year ended June 30, 2009, but that includes the \$108,000 grant pledged from the DeSoto Parish Police Jury. Without the Police Jury's help the organization would have lost \$63,519 for this fiscal year. These factors have created an uncertainty about the organization's ability to continue operations and continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Arc is unable to continue.

On January 11, 2010, the DeSoto Parish Police Jury granted the organization an additional \$50,000.

Management and the Board continue pursuing new grant funding and operating revenue sources to establish an adequate cash flow and review expenditures for possible reductions.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
The Arc of DeSoto
Mansfield, LA

I have audited the financial statements of The Arc of DeSoto (a nonprofit corporation) as of and for the years ended June 30, 2009 and 2008, and have issued my report thereon dated January 19, 2010. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered The Arc of DeSoto's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Arc of DeSoto's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Arc of DeSoto's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I did identify certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. I consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting: 2009-01, 2009-02, 2009-03, 2009-04 and 2009-05.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Arc of DeSoto's internal control.

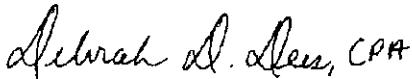
My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, in aggregate I consider 2009-03, 2009-04, and 2009-05 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arc of DeSoto's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as: item 2009-06.

Arc of DeSoto's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. I did not audit DeSoto Arc's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the board of directors, management, others within the organization, the Legislative Auditor, and the cognizant agencies and is not intended to be and should not be used by anyone other than these specified parties.



Mansfield, Louisiana
January 19, 2010

ARC OF DESOTO
Schedule of Finding and Responses
For the Year ended June 30, 2009

Part 1. Summary of Auditor's Results

INDEPENDENT AUDITOR'S REPORT:

I have audited the statements of financial position of the Arc of DeSoto as of and for the years ended June 30, 2009 and 2008, and the related statements of activities, functional expenses and cash flows and have issued my report thereon dated January 19, 2010. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My audit of the above referenced financial statements as of June 30, 2009 and 2008 resulted in an unqualified opinion.

REPORT ON INTERNAL CONTROL AND COMPLIANCE OVER THE FINANCIAL STATEMENTS:

Internal Control

Significant Deficiency
Material Weaknesses

☒ Yes
☒ Yes

☐ No
☐ No

Compliance and Other Matters

Compliance Material to Financial Statements

☒ Yes

☐ No

A management letter was not issued.

FEDERAL AWARDS

Not applicable

Part II. Findings relating to the Financial Statements, which are required to be reported under *Government Auditing Standards*.

FINDINGS RELATED TO INTERNAL CONTROL

2009-01. Inadequate design of internal control over financial statement preparation.

Criteria. In the past, auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006, Statements on Auditing Standards 112 expands management's responsibility to ensure the propriety and completeness of the financial statements and related footnotes.

Finding. The Arc's staff responsible for preparation of the financial statements and related footnote disclosure in accordance with generally accepted accounting principles (GAAP) lacks the resources and/or knowledge necessary to internally complete the reporting requirements.

Recommendation: The Arc should either 1) obtain the resources and/or knowledge necessary to internally prepare or review the auditor's preparation of the financial statements and related footnote disclosures in accordance with GAAP, or 2) determine if the cost of No. 1) overrides the benefit of correcting this control deficiency.

2009-02. Insufficient Board of Director's minutes

Criteria. The minutes of the Board of Directors should document the monitoring of management and other business brought before it. The minutes should include all matters decided and votes taken. The members of the Arc of DeSoto should meet in June and vote on Board members and the proceedings should be documented by minutes.

Findings. (1) There are no minutes documenting that the Board met between March 26, 2009 and July 23, 2009. The July, 2009 minutes state "Minutes of the previous month was omitted. The recorder was not in attendance." There are no minutes indicating that an annual meeting of the members and the formal election of the Board of Directors was held. The October, 2008 minutes state, "Due to absence of the Board's Secretary at previous meeting, there were no minutes to approve."

(2) The minutes are not signed.

(3) The minutes that are available are inadequate. The July, 2009 minutes report "The Board of Directors gave the Personnel Committee permission to set a date to interview all applicants after the deadline had passed." There is no mention of the position that is open or when the deadline is. There is also no mention in any minutes that the Executive Director resigned. The December, 2008 minutes state "The Center has been approved for a grant." The grantee or the amount are not reported.

(4) The Board does not follow up on old business brought before it and properly record the results that could set policy and/or procedures for management. For example, the August 14, 2009 minutes list a group of board members would "investigate to determine the needs and report back to the Board of Directors on Thursday, August 28, 2009." There are no minutes of an August 28th meeting and there is no mention of the investigation in subsequent minutes. Also, the February 19, 2009 minutes passed a motion "to have a work session concerning our situation with Board members and outside representation from OCDD." A follow up report about this meeting could not be located.

Recommendations. (1) There should be minutes for all meetings. If there is no secretary, someone should be appointed at the meeting. (2) These minutes should include enough detail to inform and record board members and management of the policies and decisions made. (3) The attendance requirements for board members should be reviewed and enforced to guarantee that a quorum can be obtained to conduct meetings.

2009-03 Inadequate segregation of duties.

Criteria. Good internal control requires that different personnel be assigned to authorize transactions, record transactions, and maintain custody of assets.

Finding. The Arc does not have adequate segregation of duties within the sheltered workshop accounts receivable function of the accounting system. The center's clerk bills for client sheltered workshop income, collects, and records the receipts. These billings could not be provided during the audit. There is no compensating general ledger control account to reconcile the billings with the receipts. The client sheltered workshop-yards indicates that there is more paid to clients for doing the yard work than there is yard revenue deposited in the bank.

Recommendation: The duties should be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes 1) separating the initializing of billing transactions and the subsequent custody and recording of the receipts and 2) separating monitoring responsibility from record keeping. The organization should utilize general ledger accounts receivable control accounts to reconcile the billings, receipts, and outstanding accounts receivables.

2009-04 Deficient payroll controls

Criteria: Personnel should prepare time/attendance reports to document actual hours worked. All time/attendance reports should be reviewed and approved by a supervisor. The employees should not be loaned money by being paid before the pay period ends.

Findings: (1) Every month the employees are issued their payroll checks several days before the end of the pay period.

(2) Leave time is properly accumulated in the payroll records and kept by the outside bookkeeping firm. The policy is that employees will accumulate 7 hours of leave each month for a total of 84 hours per year. Leave time accumulates, but is not paid if the employee quits. The executive director was paid for 238.5 hours of leave time from July, 2008 to July, 2009 with 88.50 at the time of her resignation. There was no board approval for paying this leave time. Last fiscal year \$9,076 was paid in leave time. Some of this leave results in having to pay "substitutes" to work in the employee's place. The records indicate that there has been \$5,920 paid during the first six months of this fiscal year.

(3) Past policy was set that van drivers are paid for 35 hours a week regardless of time worked. The drivers are recording time paid each day instead of actual time worked. This has resulted in "substitute" van drivers, who are also day workers, documenting a 14 hour day—seven for their regular pay and 7 as a van driver. There was no overtime calculated. Note that subsequent to year end, overtime is now being calculated properly.

(4) This pay system for the van drivers has also resulted in the employees recording time paid on the mileage logs which overlap the time period recorded by the night cleaning crew.

Recommendations:

(1) Payroll checks should not be prepared until after the pay period has ended and a supervisor has had time to review and approve, by signature, the time sheets. The time sheets can then be forwarded to the bookkeeping service for preparation. Therefore, I suggest that if the employees are to be paid on the 30th of each month, the pay period end on the 25th. This will give the supervisor and the bookkeeper time to prepare the checks by the 30th.

(2) The leave policy could be strengthened by putting a limit on sick time accumulation, and having employees understand that sick leave with pay is not a right which an employee may demand but a privilege granted by the Board. The executive director's leave time should be approved at board meetings.

(3) & (4) Time sheets and mileage logs should have actual time worked recorded.

2009-05. Ineffective oversight of Medicaid billing.

Criteria. (A) Client Medicaid reimbursement is based on the number of days the client attends the center and the amount of the reimbursement is based on whether they are in day habilitation or working in the sheltered workshop. The type and number of client days of each that can be billed on an annual basis are predetermined by the center executive director, the client, and the client's social worker (from Easter Seals). Changes can be made upon the Arc's request to the allocation of these days. (B) Reimbursement billings of these unbilled days along with denied billing can be submitted up to one year from the date of service.

Finding. (A) The number of billing days dropped from on average of 14-18 per month from July to April down to 12 in May and 9 in June for fiscal year ending June 20, 2009. The explanation from management was that the clients ran out of "days." Further they explained that a request for changes had been made; but as of December 18, 2009, they had not been notified that the changes had been accepted. According

to Easter Seals the center had billed all of the client's day habilitation days, but days approved for working in the sheltered workshop could not be billed because the clients were not working. The social worker knew the center requested changes on many occasions, but was not sure if these days were part of the requests. Six to seven months after the services were provided, management has not billed for these days or followed-up on their request for changes.

(B) During the year ended June 30, 2009, there were \$8,201 in billings to Medicaid that were denied. For the six months since the fiscal year end \$11,192 of billings have been denied. There is no indication that these denials are being reviewed for errors or explanations and being resubmitted for reimbursement.

Recommendations. (1) Management should contact the Medicaid waiver office and inquire about their request for changes. If approved these days could be billed within the one-year time frame. (2) Since sheltered workshop days are billed for 38% more than day habilitation days, management should actively seek appropriate work for each client in order to maximize reimbursements. (3) Denials should be reviewed monthly by management so they could be resubmitted and so that the errors are not repeated.

FINDING RELATED TO COMPLIANCE

2009-06. Violation of the Louisiana Audit Law

Criteria. Louisiana Revised Statutes require the DeSoto Arc to submit annual financial statements to the Louisiana Legislative Auditor within six (6) months of the end of the fiscal year.

Finding. The Arc failed to submit the annual financial statements within the required time.

Recommendation. In order to properly determine the Arc of DeSoto's viability as a going concern, it was necessary to extend audit procedures beyond the December 31 deadline.

ARC OF DESOTO
Summary Schedule of Prior Audit Findings
For the Year ended June 30, 2008

Prior year findings:

2008-01 Inadequate design of internal control over financial statement preparation.

Unresolved. See finding 2009-01.

2008-02 Related party.

Partially resolved. When the executive director resigned in July, the conflict with her brother was resolved. Documentation in the minutes continues to be a finding. See finding 2009-02.

2008-03 Inadequate segregation of duties.

Partially resolved. A control account for Medicaid reimbursement was established in the general ledger. The sheltered workshop receivables continue to lack proper controls. See finding 2009-03.

2008-04 Violation of the Louisiana Audit Law

Unresolved. See finding 2009-04.



The Arc of DeSoto

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Response to Current Year Ending for the Year Ended June 30, 2009

Possible response to findings:

2009-01 and 2008-01 Financial statement preparation

Based upon the cost versus benefit of obtaining the necessary resources and/or training, We have determined that is not cost effective to obtain the necessary qualifications and training to establish internal controls over the preparation of financial statements in accordance with GAAP. We feel it is in my interest to continue to outsource this task to the independent auditor, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

2009-02 and 2008-02 Minutes

A recording secretary will be appointed by the Board. The Board will be more dutiful and thorough in the recording and reviewing their board minutes and their contents.

2009-03 and 2008-03 Segregation of Duties

At this time, we have determined that it is not cost effective to attempt to achieve complete segregation of duties within the accounting functions of the ARC of DeSoto. But we will institute tighter billing controls and establish a central account in the general ledger for the sheltered workshop revenue.

2009-04 Payroll controls

Payroll checks will not be distributed until after the pay period ends. The executive director will review and approve all time sheets including the reasons behind employee leave time and that actual time is recorded by the employee. The leave policy will be revisited to determine if there is any abuse and the executive director will have her leave time approved by the board of directors. Mileage logs will be properly documented with actual time drivers are in the van.

2009-05 Medicaid billing

ADULT HABILITATION SERVICES
CONTRIBUTING TO THE COMMUNITY



The Arc of DeSoto

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Procedures for Medicaid billing will be evaluated to determine if the Arc of DeSoto is receiving the maximum reimbursement it is allowed. Denials will be reviewed and timely resubmitted.

2009-06 and 2008-05 Louisiana Audit Law violation

We concur with the auditor's recommendation.

Respectfully submitted

**Judy Johnson
Director**

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